Management's Discussion and Analysis

Today, education is perhaps the most important function of state and local governments. … It is the very foundation of good citizenship. … In these days, it is doubtful that any child may reasonably be expected to succeed in life if he is denied the opportunity of an education. Such an opportunity, where the state has undertaken to provide it, is a right which must be made available to all on equal terms. …

We conclude that, in the field of public education, the doctrine of "separate but equal" has no place.

—Brown v. Board of Education of Topeka, 347 U.S. 483 (1954)

The message of Brown v. Board was: separate schools are inherently unequal. The message of No Child Left Behind is: separate instruction—instruction that is based upon assumptions that certain children cannot learn—is inherently unequal. And this Administration, and I, as Secretary of Education, will not tolerate schools that practice the soft bigotry of low expectations.

—Secretary Rod Paige

The Journey from Access

Schools Respond to Crisis

As Hurricane Charley approached landfall on Saturday August 14, 2004, the Charleston County School District in South Carolina was prepared to respond to the catastrophe thanks to an emergency and crisis-planning grant from the Department. The district's campus safety coordinator, stationed at a command post established by the city of Charleston, watched NOAA satellites and monitored the situation until she got clearance from transportation/highway patrol. She then radioed the district's logistics team to examine the schools as the storm left the geographic area. Hours after Charley passed, all 79 schools had been individually inspected and repaired. Because of this assessment and response effort, all schools were open on Monday.

Students With Disabilities Meet the Challenge

Expectations for students with disabilities have increased over the last 15 years and so has progress. Today's students

- First receive services at the average age of 7.4, almost one year earlier than 15 years ago.
- Receive services in greater numbers with about three-quarters of eligible students receiving at least one service compared to a little more than half 15 years ago.
- Are more likely to be educated at the typical grade level for their ages; 53 percent of high school students are educated at the typical grade level compared to 32 percent 15 years ago.
- Are more likely to be served in regular classroom; 28 percent are served in regular classrooms 100 percent of the time.
- Are more likely to earn a high school diploma; currently almost half of students achieve this distinction.

Sources. Wagner, M., Cameto, R., and Newman, L. (2003). *Youth with disabilities: A changing population.* Menlo Park, CA: SRI International. Department of Education, Annual Office of Special Education Programs state reported data.

Beating the Odds IV

Students in schools in large cities often face the greatest odds and need the most help to reach academic excellence. Thus, the most recent Council of Great City Schools' report, *Beating the Odds IV*, was met with applause. Schools in large cities are meeting the challenge and made important gains in reading and math scores on 2003 state assessments. Fresh evidence also exists that gaps may be narrowing between cities and states, between African Americans and whites, and between Hispanics and whites. Findings show that

- 84.6 percent of all grades included in the Great City Schools report showed gains in math scores.
- 72.1 percent showed gains in reading scores.
- 73.1 percent of fourth grades tested narrowed the achievement gap between whites and African American students.
- 60.0 percent of fourth grades tested narrowed the gap between whites and Hispanics.

Districts in the Council of Great City Schools enroll 15 percent of the nation's public school students and 30 percent of the nation's African American, Hispanic, limited English proficient, and poor students.

Source. http://www.cgcs.org/reports/beat_the_oddsIV.html.

Taking What Works into the Classroom

Transforming education into an evidence-based field means moving research findings into classroom practice. Progress was made this year when the Department's What Works Clearinghouse (WWC) released a series of study reports reviewing the evidence of effectiveness of Peer-Assisted Learning. In evaluating the quality of research on students working in pairs or small groups, the clearinghouse found that the first set of peer-assisted learning studies shows positive effects for some peer-assisted learning strategies, but no effects for others. With two-thirds of teachers engaging students in some type of group work on a weekly basis, synthesized information on Peer-Assisted Learning studies could not be more timely, relevant and useful. The clearinghouse focuses on studies that measure elementary academic outcomes in reading, math, and science and that can be used to inform instructional practice and teacher professional development.

Sources. http://www.w-w-c.org and http://www.ed.gov/news/pressreleases/2004/07/07012004.html.

to Excellence

Financial Aid Management Attains Best-Ever Performance in Key Indicators

"Low interest rates and strong program management are some of the factors that have resulted in an all-time low in student loan default rates—5.2 percent," Secretary Rod Paige said on September 14 as the Department released the national cohort default rates for FY 2002, the latest year for which data are available.

A number of factors have contributed to the lower rate. Schools and partners in the student loan industry have made debt repayment a priority, and interest rates are at historic lows. In July, student loan interest rates dropped to 3.37 percent—the lowest in 35 years—saving student loan borrowers millions of dollars and making repayment more affordable.

The Department's Office of Federal Student Aid (FSA), the federal government's first Performance-Based Organization, directs efforts to improve service to students and parents and to strengthen overall management of student aid programs. The historic lows in default rates occurred largely through FSA's activities in

- Working with student aid partners to identify borrowers who may need repayment assistance and to discuss consolidation and other options before the borrower goes into default.
- Increasing the efficiency of Direct Loan consolidations, which has reduced federal costs from $111 per consolidation in FY 2001 to $66 per consolidation in FY 2004.
- Increasing total annual collections on defaulted loans that the Department holds from $691 million in FY 1998 to $1.8 billion in FY 2004.

I fervently believe that every child can learn.

—Secretary Rod Paige

Our Mission

"Mighty oaks from tiny acorns grow," and the seal of the Department of Education reflects this belief. We at the Department are committed to the millions of children, youth, and adults who depend on education to fulfill their goals. Achieving these goals is hard work. Becoming a police officer, a teacher, an economist, a nurse—indeed, any profession requiring years of disciplined study—means more than a student wanting to be someone special when he or she grows up. It means a challenging curriculum taught by dedicated instructors. It means encouragement and assistance when subjects become difficult. It means having money available to pay for advanced studies.

To ensure equal access to education and to promote educational excellence throughout the nation

Education is the bedrock of individual aspiration and achievement; it is also the bedrock of our economy and our nation's strength. We rely on education to train our first responders, our health care professionals, our scientists and engineers—all our citizens. Our democracy depends on an educated electorate and skilled workers. We at the Department of Education play an important supporting role by helping America's schools to strive for greater success.

Our Customers: Students, Parents, Schools, and Postsecondary Institutions

When the No Child Left Behind Act took effect on January 8, 2002, the federal government intensified its commitment to more than 50 million students of America's elementary and secondary schools. The Department of Education has invested significant resources to further the academic improvement of America's children between preschool and the 12th grade. In fiscal year (FY) 2004, we channeled $34 billion in support of more than 92,000 public schools across the nation.

American student achievement at the elementary and secondary level has, with few exceptions, shown little improvement since 1970 despite federal assistance that has supplemented increasing state and local education revenues. A single year—or even three years—of No Child Left Behind's commitment to standards and accountability will not reverse a generation's lack of academic progress.

But there are signs of improvement throughout American schools as educators seek to realize each student's potential to meet high academic standards. A recent three-year trend analysis of student achievement in the 23 states with comparable reading scores and the 24 states with comparable math scores found reading achievement up in 65 percent of those states (15) and math achievement up in 96 percent (23). Reading scores declined in 5 states (22 percent); math scores declined in 1 (4 percent). More results from this study[1] are shown in the following table.

Results for States That Had at Least Three Years' Data Disaggregated by Race, Ethnicity, and Family Income	
In Reading	**In Mathematics**
The African American-white gap narrowed in 16 states and grew wider in 3.	The African American-white gap narrowed in 17 states, grew wider in 2, and remained the same in 1.
The Latino-white gap narrowed in 14 states, grew wider in 3, and remained the same in 2.	The Latino-white gap narrowed in 16 states, grew wider in 3, and remained the same in 1.
The Native American-white gap narrowed in 13 states, grew wider in 2, and remained the same in 2	The Native American-white gap narrowed in 14 states, grew wider in 2, and remained the same in 2.
The gap between poor and non-poor students narrowed in 9 states and grew wider in 1.*	The gap between poor and non-poor students narrowed in all 10 states examined.*

*Only 10 states provided data for both poor and non-poor students.

[1] Education Trust, *Measured Progress: Achievement Rises and Gaps Narrow, But Too Slowly,* October 2004.

Scores on the most recent National Assessment of Educational Progress in school year (SY) 2002–03 showed significant increases nationally in mathematics achievement in the fourth and eighth grades that were replicated among African Americans and Hispanics (both of whom reduced gaps with white students), and economically disadvantaged students (who reduced gaps with those from higher-income families). Also, preliminary student performance data and school accountability indicators on statewide academic assessments brought encouraging news during SY 2003–04. Compared to a year ago, the percentage of schools making adequate yearly progress toward student proficiency has increased significantly in many states. Increases in the number of schools meeting state adequate yearly progress targets are partly the result of increased flexibility allowed to states in defining adequate yearly progress and partly the result of increases in the number of students from all subgroups meeting state proficiency standards on state assessments.

Although federal funds constitute less than 10 percent of all elementary and secondary school funding, these funds are being directed toward classroom activities that help all students learn important fundamentals:

- Funding increases for Title I grants to high-poverty schools and Reading First grants for increasing the focus on beginning readers helped disadvantaged children to concentrate on classroom essentials and improve literacy skills, from which all other knowledge springs.
- Similar targeted funding increases for the Individuals with Disabilities Education Act extended comparable opportunities to students overcoming serious obstacles to living, working, and learning.
- Federal assistance for teacher professional development helped states push toward the goal of having highly qualified teachers in core subjects at every public elementary and secondary school by 2006.

Through these concentrated investments, and guided by the principles of accountability and research-based instruction, the Department's efforts help to ensure a quality education for all American children.

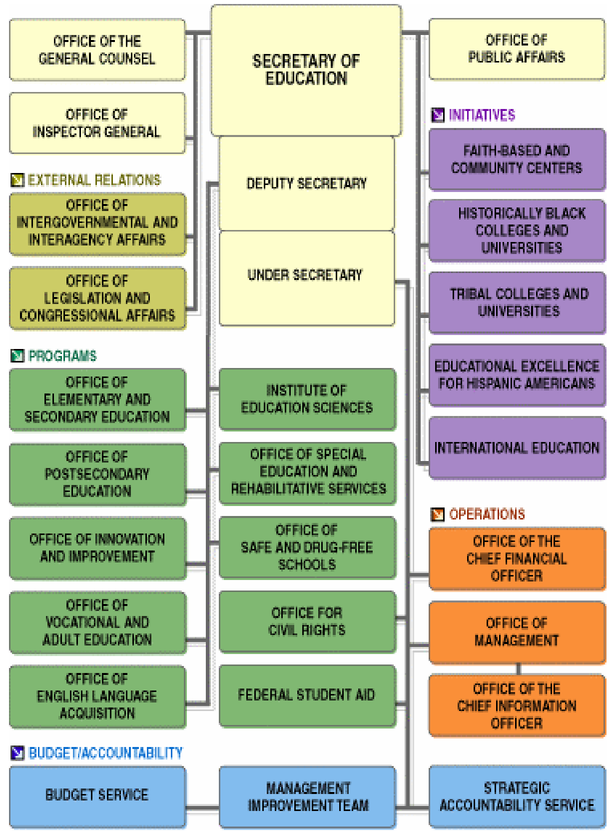
We also are committed to continually enriching America's renowned postsecondary education systems and to lowering barriers to access for those facing economic obstacles. As with the earlier instructional years, the Department of Education supplements existing higher education spending with concentrated funding that improves institutional quality and opens the postsecondary door to students from disadvantaged backgrounds. We also play a primary role in financing the education of millions of students each year by making available student loans at lower-than-market interest rates and by providing increased funds for need-based Pell grants. Recent data on graduation rates from postsecondary degree-granting institutions are showing promising results for students from traditionally underrepresented subgroups, as African American and Hispanic students have reduced the graduation gap with white students since 2000. Although many factors contribute to this excellent news, the provision of need-based aid by the Department may play a significant role.

At a time of constrained federal discretionary spending, achieving the goals of academic excellence and expanded access to quality education requires that every dollar be spent wisely. As an agency that supplements far larger sums of state and local money, the Department of Education faces a further challenge of targeting funds toward their best use in support of ongoing local academic improvement efforts. To serve our customers and America's future, we strive to meet this challenge every day.

Organization and History

With the smallest workforce of the 15 cabinet-level departments (4,400 employees) managing the third-highest annual appropriation of discretionary funds, we at the Department of Education make a dollar go a long way. In addition to our appropriations, which are largely used to provide discretionary and formula grants to educational entities throughout the nation, our student loan portfolio is exceeded in total loan volume, education-related or otherwise, by only two American banks.

The Department organization chart is aligned with our *2002–2007 Strategic Plan*, and our functions are neatly divided between program policy and internal management concerns. The Office of the Deputy Secretary oversees the Department's principal offices that administer the policies, regulations, and guidance regarding the numerous federal education laws. The staff of these offices assist states, school districts, colleges, students, parents, and the general public in increasing the awareness and availability of optimal educational opportunities throughout the United States. The Office of the Under Secretary directs the internal management of the Department, ensuring that funds are responsibly accounted for and that program performance is measured and improved effectively.



Many of our major activities spring from laws first enacted before the Department was created in 1980. The Elementary and Secondary Education Act, the Higher Education Act, the Individuals with Disabilities Education Act, and the Pell Grant Program emerged between 1965 and 1975, giving the federal government a significant role in education policy, especially in comparison to its original function of keeping education statistics in a smaller Office of Education 137 years ago.

Today, the federal role in education is a subject of intense debate, and some Americans seek a smaller federal role in education matters. The Department is duly attentive to this concern. We do not supersede the authority of states and school districts, which spend over $450 billion annually on elementary and secondary education to operate schools, employ teachers and administrators, and establish challenging content and achievement standards. Our role is to support state and local efforts with resources that target students in need of economic and academic assistance, with sponsored research that provides teachers with effective instructional strategies, and with leadership that encourages state and local leaders to improve education opportunities for all. We do more with less; our staffing level is more than 40 percent below the level at the Department's creation, although program funding has increased in inflation-adjusted terms by 96 percent. We also use our resources wisely, with approximately two percent of Department appropriations funding administrative overhead. In this manner, the task of making sure that no child is left behind benefits from a targeted and coordinated federal presence.

Civil Rights Enforcement

In 2004, President Bush delivered remarks honoring the anniversaries of two watershed events in America's longstanding efforts to bring about equal educational opportunity. In a speech commemorating the 50th anniversary of *Brown v. Board of Education*, the landmark Supreme Court decision that declared separate but equal schools to be unconstitutional, the President stated, "…while our schools are no longer segregated by law, they are still not equal in opportunity and excellence."[2] On the 40th anniversary of the passage of the Civil Rights Act of 1964, the landmark statute that

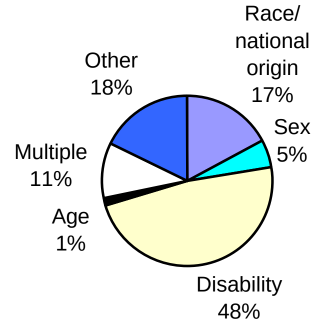
[2] President George W. Bush, May 17, 2004, at the grand opening of the *Brown v. Board of Education* National Historic Site.

prohibited racial restrictions in the public arena, the President observed, "the evil of bigotry is not finally defeated. Yet the laws of this nation…are on the side of equality."[3]

The Department is responsible for enforcing five federal civil rights laws prohibiting discrimination by recipients of federal financial assistance on the basis of race, color, national origin (Title VI of the Civil Rights Act of 1964), sex (Title IX of the Education Amendments of 1972), disability (Section 504 of the Rehabilitation Act of 1973 and Title II of the Americans with Disabilities Act of 1990), and age (Age Discrimination Act of 1975). In addition, we enforce the Boy Scouts of America Equal Access Act, prohibiting discrimination against any group officially affiliated with the Boy Scouts of America or any youth group listed in Title 36 of the United States Code as a patriotic society. These laws protect more than 54 million students[4] attending elementary and secondary schools and more than 16 million students[5] attending colleges and universities. The Department's Office for Civil Rights (OCR) is a law enforcement agency established to support these civil rights statutes.

In FY 2004, the Department received and resolved nearly 5,000 complaints of discrimination, thereby positively affecting the lives of the nation's students. For example, in FY 2004 the Department received a complaint alleging that the principal of a junior high school was placing black and white students in segregated classrooms. We initiated an investigation and determined that classes were segregated by race. During the investigative process, we learned that the new district superintendent had also conducted an investigation and determined that no educational justification existed for the segregated classrooms. The district entered into a voluntary agreement with the Department to develop and implement a race-neutral method for assigning students to classrooms.

FY 2004 Discrimination Complaints



Besides investigating complaints, the Department initiated more than 40 compliance reviews on issues including the misidentification of minorities in special education, the misidentification of English language learners in special education, and access for physically disabled students to postsecondary institutions. We also continued 26 compliance reviews of state departments of education to ensure that Title IX coordinators were designated and trained and that Title IX nondiscrimination policy and other information were published in accordance with regulations.

In addition to conducting complaint investigations and compliance reviews, we continued our nationwide technical assistance initiative to help students with disabilities make the transition from high school to college, giving presentations on the subject at conferences and hosting interactive group discussions for colleges, parents, students, and high school guidance counselors. In response to Executive Order 13166, which mandates improved access to federal programs and activities for persons with limited English proficiency, the Department contracted for telephonic language assistance services so that those customers can readily communicate with OCR staff. We also translated several pamphlets, including our most requested publication, *How to File a Discrimination Complaint with the Office for Civil Rights*, into Hindi, Korean, Hmong, Arabic, Vietnamese, Farsi, Chinese, Punjabi, and Urdu. These publications will soon enrich our electronic civil rights reading room, which already contains Spanish-language civil rights publications, including a complaint form written in Spanish.[6]

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[3] President George W. Bush, July 1, 2004, at a White House ceremony commemorating the 40th anniversary of the Civil Rights Act of 1964.

[4] U.S. Department of Education, National Center for Education Statistics, *Projections of Education Statistics to 2013* (NCES 2004–013), table 1, p. 45. Available at http://nces.ed.gov/pubs2004/2004013b.pdf.

[5] Ibid, table 10, p. 57.

[6] Available at http://www.ed.gov/about/offices/list/ocr/docs/list-sp.html.

The Department's *2002–2007 Strategic Plan*[7] built upon the foundation of the No Child Left Behind Act to chart a course for fundamental improvement in American education and accountability in managing our own affairs. The six goals of our strategic plan encapsulate the major tasks that we must accomplish to fulfill our mission. Every day, we strive to accomplish the following:

- Create a culture of achievement.
- Improve student achievement.
- Develop safe schools and strong character.
- Transform education into an evidence-based field.
- Enhance the quality of and access to postsecondary and adult education.
- Establish management excellence.

Goal Overviews

Goal 1. Create a Culture of Achievement. When the Department embarked on a five-year plan for strengthening schools and accelerating the pace of student achievement, we identified *creating a culture of achievement* as the first strategic goal. The characteristics we have defined for this culture are *accountability for results* measured at the Department level by program performance measures and at the state level by state accountability plans and student assessments; *flexibility and local control* supplied by the No Child Left Behind provisions that allow states to target federal funds where they are most needed; *expanded parental options* offered by charter schools, school transfers, and supplemental services; and *doing what works* by knowing the results of scientific research in education interventions and using those interventions in classrooms.

Key results for Goal 1 include the following:

- Two years ahead of schedule, 23 percent[8] of states had accountability systems in place that included standards-based assessments in reading/language arts and mathematics in each of grades three through eight and once at the high school level.
- The number of state-approved providers offering supplemental educational services increased from 1,451 reported by 44 states and jurisdictions in October 2003 to 2,535 by the end of September 2004, with 51 of 52 states and jurisdictions reporting.

Goal 2. Improve Student Achievement. The No Child Left Behind Act of 2001 introduced the essential road map for elementary and secondary education reform: funds to states for establishing research-based kindergarten through third-grade reading programs, increased emphasis on mathematics and science instruction, better performance by high school students, and a highly qualified teacher in every classroom. To reach the goal of improved student achievement, the Department worked with our partners: states, districts, and local schools. We helped states interpret and meet the requirements of the law by issuing regulations and guidance. We prepared grant application packages for use by applicants, funded program activities, and required accountability for program performance. The Department's practical work is a catalyst for improving state and district policy-making and for increasing academic achievement for all students.

Key results for Goal 2 include the following:

- All states that assessed reading in third grade met their targets for achievement of students in the aggregate.
- High school students, including students in the aggregate, African American students, and Hispanic students, participated in advanced placement tests at a higher percentage rate than they did in the previous year.

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[7] Available at http://www.ed.gov/about/reports/strat/plan2002-07/index.html.

[8] This is a preliminary estimate; the Department has not yet reviewed these state systems to determine whether they meet No Child Left Behind requirements.

Goal 3. Develop Safe Schools and Strong Character. A safe and orderly learning environment is essential to students' social and academic development. In underscoring the Department's commitment to safe and drug-free schools, Secretary Paige stated that "we must ensure that all students learn about citizenship and character in schools that are safe and free of alcohol and drugs if we are to meet the lofty goals of the No Child Left Behind Act." As today's students develop into tomorrow's citizens, their academic accomplishments, character development, and civic awareness will have an immense impact on the nation's economic and social prosperity.

To develop and maintain safe schools, the Department works with grantees to implement comprehensive programs for reducing and preventing substance abuse, improving crisis planning and response, and providing character education. In FY 2004, the Department worked with state and local educational, law enforcement, and public health agencies to reduce and prevent violence and substance abuse. To support students' social and personal development, our character and citizenship education programs implemented strategies to imbue students with democratic societal values while creating a solid foundation for a healthy school climate.

A key result for Goal 3 is the following:

- Youth victimization and criminal involvement rates for 2003, the most recent data available, show a reduction from 2002 rates.

Goal 4. Transform Education into an Evidence-Based Field. Transforming education into an evidence-based field requires high standards for evaluating education research, which lead to a better understanding of what works in education. In FY 2004, the Department demonstrated how we can use rigorous studies to inform the work of decision-makers at all levels of education. Education improvement goes hand in hand with valid and reliable evidence of effectiveness. The Department's Institute of Education Sciences has furthered its research oversight role to provide educators and decision-makers with the tools necessary to obtain and understand research in the field.

This year, the Department strengthened the quality of the research and projects that we fund and conduct. The National Center for Education Statistics completed reports of national significance, while constantly improving its reporting and methodological techniques. The National Institute on Disability and Rehabilitation Research made contributions to those with disabilities through its support of new technology.

Key results for Goal 4 include the following:

- Department education research projects met high methodological standards in FY 2004. Approximately 90 percent of projects that addressed causal questions used rigorous research methods employing randomized experimental design.
- The Department's What Works Clearinghouse released its first study reports; they addressed peer-assisted learning and middle school mathematics curricula.

Goal 5. Enhance the Quality of and Access to Postsecondary and Adult Education. Just as elementary and secondary education are enhanced via No Child Left Behind, postsecondary and adult education benefit from the Department's efforts to improve educational excellence throughout America. Pell Grants and federal student loans help millions of Americans pursue postsecondary degrees and certificates each year. Approximately $1 billion in federal TRIO and GEAR UP grant program funds help underprivileged middle and high school students prepare for postsecondary education. Funding is targeted to higher education institutions with historic ties to underserved minority populations so that they can better provide opportunities for higher education. Vocational rehabilitation agencies assist individuals with disabilities to improve employment skills and enhance economic independence. Adult literacy efforts bring hope to many Americans for a more prosperous future. International programs offer individuals a chance to interact with and learn from diverse cultures all over the world.

Department programs enable many Americans to access postsecondary and adult education. Student loan interest rates are the lowest in 35 years, providing incentives for postsecondary enrollment and less burdensome repayment. Wise management of our student loan portfolio provides needed funds quickly and helps achieve historically low cohort default rates. Enhancing the excellence of postsecondary and adult education and enabling affordable access to as many people as possible will help America maintain its competitive advantage in the global economy. In FY 2004, the Department made significant progress toward attaining these goals, as well as identifying areas in need of further improvement.

Key results for Goal 5 include the following:

- Graduation rates from four-year institutions have increased since 2000 in the aggregate as well as for white, African American, and Hispanic students. Gaps in graduation rates between whites and African Americans and between whites and Hispanics have narrowed slightly during that time. Graduation rates from two-year degree-granting institutions have decreased since 2000, but gaps between whites and African Americans and between whites and Hispanics have narrowed noticeably.
- Ninety-four percent of persons that achieve an employment outcome after being served by state vocational rehabilitation agencies obtain competitive employment.

Goal 6. Establish Management Excellence. The most important asset of a government agency is the public's respect and confidence. To earn them, an organization must establish a culture of management excellence. The first step to achieving management excellence is to articulate clearly the results to be achieved. The Department has established the management results it seeks in Goal 6 of the *Strategic Plan* and in the *Blueprint for Management Excellence*. The *Blueprint for Management Excellence* is a living plan consisting of a series of actions to focus all of the Department's employees on the most pressing issues affecting the management of the Department. Both Goal 6 of the *Strategic Plan* and the *Blueprint for Management Excellence* directly align with the *President's Management Agenda*.

Goal 6 of the *Strategic Plan*, the *Blueprint for Management Excellence*, and the *President's Management Agenda* clearly articulate goals for ensuring the Department has the right people, in the right place, at the right time, doing the right work. The plans set up a framework for how information technology investments can improve the work processes of the Department and the services for our customers and partners. The plans also focus the Department's efforts on ensuring that appropriate internal controls and financial systems are in place to provide managers with accurate and timely financial and performance information for managing day-to-day operations. The accurate and timely financial and performance information allows the Department to tie performance expectations and funding requirements effectively.

Key results for Goal 6 include the following:

- The Department dramatically improved internal controls and data integrity, as reflected in three sequential clean audit opinions and the ability to use financial data on a day-to-day basis to help inform management and programmatic decisions Department-wide.
- The Department improved the way we exchange data and interact with customers by enhancing the use, management, and security of information technology investments.
- The Department identified and refined performance measures for our programs, using data and analysis to inform funding recommendations, and focusing on the results to be expected from the programs.

Strategic Planning and Reporting

These six goals of the *Strategic Plan 2002–2007*[9] establish appropriate priorities for the Department of Education in enabling greater academic achievement in America's classrooms. The preceding overviews demonstrate a coordinated set of objectives and actions

[9] Available at http://www.ed.gov/about/reports/strat/plan2002-07/index.html.

flowing from the goals that shape our work into a cohesive whole.

The Government Performance and Results Act requires us to establish meaningful performance standards for activities for the agency as a whole and for the 158 statutorily authorized programs that we administer. Whether a program's budget is $12 billion (such as Title I) or $12 million (such as Client Assistance State Grants), we have established performance measures and targets for most of our programs so that we can demonstrate accountability to the public.

Our *FY 2004 Annual Plan*[10] was the fundamental planning document for the year just passed. It identified specific strategies and action steps to carry out our goals and objectives, made necessary adjustments to agencywide performance measures and targets originally established in our strategic plan, and established and refined program-level measures and targets in an online supplement.

At the end of FY 2004, this *Performance and Accountability Report*[11] shows the extent to which these actions translated into meaningful results and successful investment of public funds. We also include in this document the lessons we learned that will refine our policy and management activities during FY 2005 to enable us to achieve greater success.

Integration of Performance with Budget and Finance

Focusing on results and accountability with performance monitoring and financial reporting is a sound practice for increasing the productivity of cash. One critical gauge of how well taxpayer dollars are being used is for an agency to link the performance of its programs to subsequent budget determinations. Not long ago, few federal programs could discern such a linkage, but the absence of performance metrics at the program level is now clearly the exception rather than the rule. Furthermore, if the conventional wisdom that one gets what one measures is proven true, the increasing use of rigorous performance measurement will help to bring about the positive results we seek.

The Department constantly seeks to strengthen the linkage between financial investments and program quality. We do this not only through the development of program measures, but also through various reporting mechanisms and effective budget management. This report is one example of how we provide comprehensive, accurate information to the American public in a timely manner. The following are some other major activities related to budget and performance integration.

Program Assessment Rating Tool. The President's Office of Management and Budget (OMB) has systematically assessed the quality of government programs over the past three years. Through the Program Assessment Rating Tool (PART), OMB works with federal agencies to judge the effectiveness of programs with regard to their stated purpose, strategic planning, internal management, and results and accountability. Although primarily a diagnostic tool for programs, PART reviews provide critical information that can be used to establish funding priorities for the subsequent budget cycle.

By September 2004, 60 Department programs had been evaluated by OMB and the Department in this manner. Programs receiving ratings lower than *effective* are required to implement a plan of action to upgrade their demonstrated level of quality. By 2006, most Department programs will have undergone a PART evaluation.

This *Performance and Accountability Report* includes detailed information on the first 18 programs evaluated through PART in preparation for the Department's FY 2004 budget submission. The Performance Details section will show how these programs have implemented changes to improve their effectiveness during FY 2004.

Crosswalk of Appropriations and Net Cost to Strategic Plan Goals. This *Performance and Accountability Report* strengthens the alignment of

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[10] Available at http://www.ed.gov/about/reports/annual/2004plan/index.html.

[11] Available at http://www.ed.gov/about/reports/annual/2004report/index.html.

financial data and performance priorities by again identifying appropriations and net costs for the goals of the *Strategic Plan*. Each Department program is aligned with the same strategic goal as a year ago, enabling both our appropriations and our estimated net costs to clearly reflect the discrete priorities of the *Strategic Plan*.

Integrating Performance Plan into Budget. During the past year, the Department incorporated our FY 2005 annual performance plan into our submission of the Department's budget to OMB. For the FY 2006 budget cycle, the budget and annual plan are again being formulated concurrently and are increasingly integrated. Of particular note, many Department-wide performance measures and targets are consolidated with existing program-level measures that accurately reflect departmental objectives for the specified activity.

Funding Challenges. The Department's challenges of linking performance results to the budget are complicated by the fact that we accomplish our objectives indirectly, with nearly 98 percent of our funding going out in grants and loans, and further complicated by the schedule of funding for these programs.

In the Department, only a portion of a given fiscal year's appropriations are actually available to state, school, organization, and student recipients during the fiscal year they are appropriated; the remainder become available at or near the end of the appropriation year or in the subsequent year and remain available to recipients for varying lengths of time, as long as 27 months or more. Thus, linking appropriated funds and program results for a particular fiscal year is not only complex, but also different for different programs.

For example, large formula programs, such as Title I and IDEA State Grants, may receive both "forward-funded" and "advance" appropriations. Forward-funded amounts of FY 2004 funds for these programs were not available for award until July 2004, nine months after the beginning of FY 2004. Advance amounts were not available until October 2004 (at the beginning of FY 2005). Both forward-funded and advance amounts in FY 2004 are intended for use primarily during SY 2004–05, and these funds can be carried over for obligation at the state and local levels through the end of September 2006.

Funds for competitive grant programs are generally available when appropriations are passed by the Congress. However, the processes required for conducting the grant competitions often result in awarding grants near the end of the fiscal year, with funding available to grantees for additional years.

Thus, the results we see during FY 2004, which are to be measured for this report, are not solely the results of actions taken with FY 2004 funds, but rather the combination of funds from FY 2002, FY 2003, and FY 2004. Furthermore, the actual results of education programs are often not apparent until long after the funds are expended. For example, a program to nurture middle school students in ways that will increase the likelihood they go to college has approximately a six-year lag time for measuring initial results.

Although we cannot isolate program results and link them directly to a fiscal year's funding, performance during a single program year serves as a proxy, because most of our programs are ongoing. Therefore, in the spirit of budget and performance integration, this report shows the approximate proportion of both funds appropriated for FY 2004 and funds expended in FY 2004 that support each of the Department's programs and strategic goals.

Overview

Fiscal operations in FY 2004 achieved marked progress as required by the Secretary and the President. We continue to execute our annual plans and our *Blueprint for Management Excellence*, which provide the foundation for our progress toward management excellence.

Goal 6 of the Department's strategic plan commits us to management excellence, and overall financial performance is improving in concert with our increased focus on academic performance. As the No Child Left Behind Act approaches its third anniversary, the Department earned our third consecutive unqualified independent audit opinion. This indicates that the taxpayers and other readers of our financial statements can rely on the information presented and are accurately informed of the status of the Department's financial position and the stewardship of our assets.

Solid management controls ensure that an unqualified audit opinion is sustained and that effective stewardship of assets is maintained. The Department recognizes the need for accountability, and management supports the culture change necessary to derive results from all levels.

In addition to effectively maintaining management controls, many of the processes that previously required herculean efforts are now routine for fiscal managers, a direct result of strategic system investments. The Department derives the maximum benefit from this investment by redeploying resources to create effective financial management tools that enhance and drive improvements. Some of these fiscal management tools include improved reconciliation processes, executive management reports, and other reports necessary to monitor the progress of our programs.

The Department's fiscal management continues to improve. In the first quarter of FY 2004, the Department achieved "green" on the *President's Management Scorecard* for financial management. This achievement is a direct result of continued improvements in effective systems utilization, meeting and exceeding quarterly reporting deadlines, and developing and using new management reports.

Departmental Management

The Department continues to use the *Blueprint for Management Excellence* to establish priorities for management improvement; facilitate effective monitoring of Department programs; eliminate financial management deficiencies; and prevent fraud, waste, and abuse of taxpayer dollars. These priorities include the following:

- Improving financial integrity through reporting transparency, monitoring, and effective internal controls.
- Managing information technology to meet internal requirements and customer needs.
- Improving management of human capital.

Improved management reporting enables managers to be accountable and supports the concepts of the Government Performance and Results Act (GPRA) and the principles of the *President's Management Agenda*. Both GPRA and the *President's Management Agenda* require the Department to (1) establish a strategic plan with programmatic goals and objectives, (2) develop appropriate measurement indicators, and (3) measure performance in achieving those goals.

During FY 2004, we improved our management reporting to include monthly fiscal reporting for program managers. Improved reporting capabilities enable the Department to integrate program results with fiscal costs that assist us to measure program results against performance. Our financial reporting capabilities have become routine. This enables us to extend our financial analysis for both program management and fiscal reporting in less time, thereby utilizing Department resources more efficiently and effectively.

Lines of Business

The Department managed a budget of $67 billion in FY 2004, of which 59 percent went toward elementary and secondary programs and grants. Postsecondary grants and loans accounted for 33 percent. The remaining eight percent went toward other programs and grants including research, development, and dissemination, as well as rehabilitation services.

As noted earlier, the Department receives through appropriation approximately two percent of our total budget for administrative expenditures. Therefore, management must be diligent in its allocation and administration of resources. The remaining 98 percent of our appropriations is spent on three primary lines of business— Grants, Guaranteed Loans, and Direct Loans.

Grants. A significant part of the Department's budget is used to support ongoing programs that were reauthorized or created by the implementation of the No Child Left Behind Act. This support is provided to state and local governments, schools, individuals, and others that have an interest in educating the American public.

The Department's two largest programs, Title I grants for elementary and secondary education, and Pell grants for postsecondary financial aid, each exceeded $12 billion in awards made to the public for FY 2004. Special Education Grants to States under the Individuals with Disabilities Education Act (IDEA), our next largest program, awarded more than $11 billion.

Guaranteed Loans. The Federal Family Education Loans Program makes loan capital available to students and their families through more than 3,400 private lenders. Through 36 active state and private nonprofit Guaranty Agencies, the Department administers the federal loan guarantee protecting lenders against losses related to borrower default. The program accounts for about 75 percent of student loan volume. As of the end of September, the total principal balance of outstanding guaranteed loans held by lenders was approximately $245 billion, with the government's estimated maximum exposure being $240 billion.

Direct Loans. Student Financial Assistance programs assist nearly 9.6 million students and their parents by making higher education more affordable each year. The Federal Direct Student Loan Program provides an alternative method for delivering assistance to students of our nation. The Student Loan Reform Act of 1993 created this program, which uses Treasury funds to provide loan capital directly to schools. The schools then disburse loan funds to students. The Direct Loan Program accounts for approximately 25 percent of the new student-loan volume. In FY 2004, the Department disbursed approximately $20 billion in direct loans to eligible borrowers. As of September 30, 2004, the value of the Department's direct loan portfolio is $93.7 billion.

Financial Position

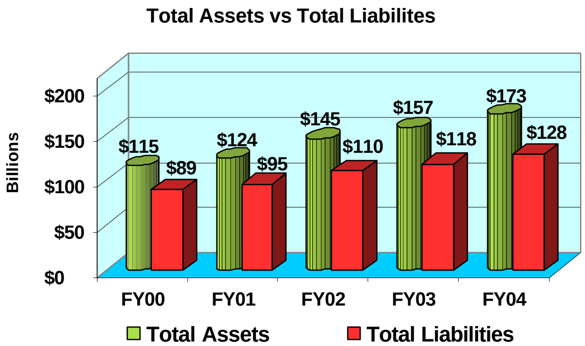
The Department's financial statements, which appear on pp. 115–119, received an unqualified audit opinion issued by the independent accounting firm of Ernst & Young LLP for the third consecutive year. Preparing these statements is part of the Department's continuing efforts to achieve financial management excellence and to provide accurate and reliable information that is useful for assessing performance and allocating resources. Department management is responsible for the integrity and objectivity of the financial information presented in the financial statements.

The financial statements presented in this report have been prepared from the accounting records of the Department of Education in conformity with generally accepted accounting principles (GAAP) in the United States. GAAP for federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB).

Balance Sheet. The Balance Sheet presents, as of a specific point in time, the economic value of assets and liabilities retained or managed by the Department. The difference between assets and liabilities represents the net position of the Department.

The Balance Sheet displayed on p. 115 reflects total assets of $172.6 billion, a 10 percent increase over FY 2003. This increase is attributable to the increased funding related to implementation of the No Child Left Behind Act and the anticipated steady growth of the Student Financial Assistance programs.

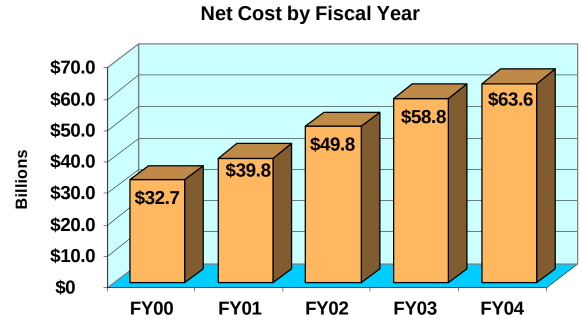
The majority of our liabilities, 80 percent, consist of intragovernmental liabilities. The Department's intragovernmental liabilities consist mainly of Treasury debt, which is directly related to the Department's focus on ensuring that funds are available for any student desiring a postsecondary education.



Several factors influenced the change in the Department's Net Position during FY 2004. This includes the timing of the execution of prior year subsidy re-estimates and the overall management of Department capital structure. Net Position increased by 12 percent over FY 2003.

Statement of Net Cost. The Statement of Net Cost is designed to present the components of the net cost of the Department. Net cost is the gross cost incurred less any revenues earned from Department activities. The Statement of Net Cost is presented to be consistent with the Department's strategic goals, as directed by the *President's Management Agenda*. The Department experienced an eight percent increase in total net costs during FY 2004.

The Enhancement of Postsecondary and Adult Education (Program A), which tracks with the Department's funding for Strategic Goal 5, experienced a six percent increase in costs over FY 2003. Programs B and C are representative of creating a culture of achievement, safe schools, and the transformation of education, and combined they track with Goals 2 and 3. These programs experienced a 10 percent cost increase in FY 2004.



Statement of Budgetary Resources. This statement provides information about the provision of budgetary resources and their status as of the end of the reporting period. Information in this statement is consistent with budget execution information and the information reported in the *Budget of the United States Government.*

The statement displayed on p. 118 shows that the Department had $131.8 billion in budgetary resources, $17.4 billion of which remained unobligated with $15.8 billion not available at year-end. The amounts not available at year-end represent funding that is provided in advance for activities in future periods. The Department had $61.7 billion in Net Outlays for FY 2004.

Statement of Financing. This statement demonstrates the relationship between an entity's proprietary and budgetary accounting information. It links the net cost of operations (proprietary) with net obligations (budgetary) by identifying key differences between the two statements. This statement is structured to identify total resources used during the fiscal year, and then makes adjustments based on whether the resource was used to finance the net obligations or net cost.

This statement, displayed on p. 119, identifies $66.9 billion of resources used to finance activities, $402 million of resources not part of the net cost of operations, and $2.9 billion of components of net cost of operations that will not require or generate resources in the current period.

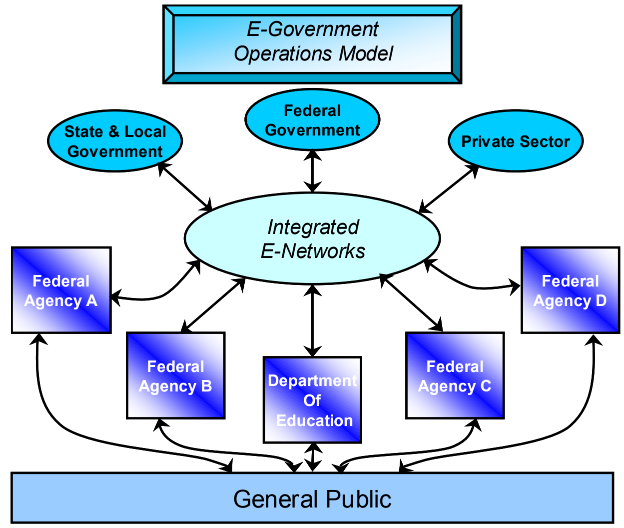
Future Trends

From a financial management perspective, the Department of Education is unique among federal government agencies. The Department has a high number of appropriations, over 200, which we must manage, consolidate, and for which we must account. We maintain the smallest number of employees while managing the third largest discretionary budget of cabinet-level agencies.

A continuation of the current trends in full-time equivalents (FTEs) will result in a critical reliance on a sound departmental intellectual capital plan. It will become increasingly important for the Department to coordinate strategic technology investments with human capital management.

Technology Transformation. Technology improvements will continue to empower organizations in the future by increasing the availability of a critical resource: time. Through these improvements, executive management can spend additional time on policy analysis and decision-making rather than on the processing and compiling of key data. This trend at the Department will continue to accelerate at an increasing rate as many of our investments in systems and e-government continue to mature.

Major Department investments currently include a re-implementation of the existing financial accounting system and full participation in the ongoing e-government initiative. The chart on this page depicts our vision of the e-government operational model that highlights electronic information-sharing capabilities via data networks.



This model will create public value by optimizing government operations and providing effective oversight in a most efficient manner through a unified data network. To ensure success, the strategic technology investment plan will be coordinated with human resource management and planning governmentwide.

Human Capital Transformation. A results-oriented enterprise requires that an organization clearly identify and achieve valuable results. The Department of Education's *Results Agenda* clearly articulates the expectations for this organization. As a result, Department personnel have the information available to understand what is expected of them and for what they will be held accountable.

The Under Secretary has articulated the following five human capital expectations:

Effective and efficient hiring processes.

Performance standards that clearly articulate expected results.

Performance evaluations that differentiate among performance levels.

Pay for performance.

Customized development and succession plans.

The Department is focusing significant resources on a consistent approach for the development and implementation of a human capital management plan.

The plan integrates human capital management with competitive sourcing and restructuring requirements. As noted in the Technology Transformation section, this plan will be coordinated with other departmental strategic infrastructure investments.

The Department's continued commitment to strategic investments in both systems and human capital will result in a robust, cost-effective environment. This, in turn, provides taxpayers with an improved return on their investment in the Department.

Economic Transformation. Two external factors, tuition costs and interest rates, are expected to have significant impact on the Department.

First, increasing tuition costs for postsecondary education should compel a greater number of individuals to seek tuition assistance. This assistance could be in the form either of loans or grants. To the extent that postsecondary institutions can control tuition increases, demand for tuition assistance should slow accordingly.

Second, significant portions of the Department's budget relate to external economic conditions. Prevailing low interest rates will drive a surge in the refinancing and consolidation of student loans. If interest rates remain stable, this trend can be expected to continue, albeit at a decreasing rate.

As transactional volumes vary, in the future, the utilization of technology will stabilize the resulting fluctuations in Department activity. Technology will enable existing Department personnel to more effectively process changing volume levels.

Regulatory Transformation. Activities and processes centering on governance, risk management, and compliance are converging. Organizations that want to create positive headlines must excel in all three areas. These long-term management issues require continued focus and sustained management commitment to ensure future success. The Department's future success is highly dependent on our ability to merge and execute all of these activities and processes into a coherent strategic operating model.

Focus on the regulatory environment requires the Department to concentrate on the costs of identifying and controlling compliance risk. Compliance risk includes systemic, non-systemic and residual risk. It is defined as the risk of impairment to the organization's operations model, reputation, and financial condition from failure to fully comply with laws and regulations, internal controls, and taxpayer expectations.

The Department must take a holistic approach to total risk management. The value of adopting such an approach far outweighs the costs of implementation. Senior management must build long-term value by making investments to comply with relevant regulations, embed compliance within the organization, manage the costs associated with compliance, and identify and address regulatory change. Our progressive focus on compliance will ensure that fewer resources are necessary for remediation activity.

Management Challenges

The major challenges facing the Department include the following.

Financial Management. Two challenges in this area include the implementation of the Improper Payments Information Act of 2002, and the re-implementation of the Department's financial accounting system to Oracle version 11*i*.

With respect to improper payments, the Department has engaged a contractor to design an erroneous payment and risk management system. A second contractor is performing recovery audit services on contracts and purchase orders. These two projects will develop and refine a comprehensive risk assessment and mitigation strategy.

With respect to the Oracle 11*i* re-implementation, the Department has developed a four-tiered systems approach. Tiers 1 and 2 of the plan have been completed, and the entire plan will be completed by October 2006.

Student Financial Assistance Programs. The Department has several challenges related to reducing the risk of fraud and error in the student aid programs while maintaining appropriate end-user access. To address these challenges, the Department has undertaken a multiphased approach.

The Department has begun work to enhance and improve oversight and program reviews of schools, Guaranty Agencies, lenders, and third-party contractors. The Department has developed and trained staff, related technical assistance guidelines, and formed a workgroup to study data collection issues. In addition, the Department will be enhancing, improving, and implementing policies and procedures related to management controls, supervisory review, documentation, and record retention affecting program review. Planned improvements include corrective action plans related to Guaranty Agency oversight and an improved electronic management system.

The Department has developed strategies to reduce improper payments in the Pell Grant Program. Working jointly with the Treasury Department and the Office of Management and Budget, the Department has submitted a legislative proposal to amend the Internal Revenue Code that would permit income data verification.

Information Technology. The challenges that face the Department relating to information technology include investment management, security, critical infrastructure protection, and contingency planning. The Department has made significant strides relating to our information technology challenges. The Department will certify our mission-critical general support systems and major applications by December 31, 2004, with the remaining systems certified by the end of the second quarter of FY 2005. In addition, we have completed a management study on mission-essential infrastructure protection that will be used to test critical infrastructure interdependencies within the Department. The Department has also initiated several modernization efforts to increase business efficiency and improve customer service in e-government systems.

Program Performance and Accountability. The Department has several challenges involving data reliability, program and contract monitoring, and program accountability and compliance. As indicated in this report, the Department addressed this issue in the strategic plan, and the Secretary has made accountability a key priority. As an example, the Department established an Insular Affairs Committee to address accountability and compliance issues in the Virgin Islands, Puerto Rico, and the Pacific Outlying Areas.

Human Capital. The Department encounters the same challenge that faces the rest of the federal government: a long-standing lack of a consistent strategic approach to managing and maintaining an appropriately skilled workforce. To address this challenge, the Department has undertaken a comprehensive human capital management initiative. This initiative includes effective planning for future needs, recruitment, hiring, and the development of the current workforce. The plan includes the five human capital expectations stated in the Human Capital Transformation section on pp. 17–18.

We have implemented a new performance appraisal system and identified and addressed training gaps and mission-critical leadership positions. We are aware that we still have much to do and are diligently working to improve our overall situation.

Improper Payments Information Act of 2002: Narrative Summary of Implementation Efforts for FY 2004 and Agency Plans for FY 2005–FY 2007

The Department has undertaken the following initiatives relating to the implementation of the Improper Payments Information Act of 2002.

Student Financial Assistance Programs. The Department has completed the following required steps related to these programs:

- Identified those programs and activities that are susceptible to significant erroneous payments.
- Implemented a plan to reduce improper payments.

- Reported estimates of the annual amount of improper payments in programs and activities that demonstrate continual progress by the Department.

The Department, Office of Management and Budget, and the Treasury Department have developed and submitted to the Congress proposed legislation to authorize the matching of Title IV Student Financial Assistance applicant data. Passage of this legislation will enable the Department to further reduce the risk of improper payments. In FY 2005, the Department will be assessing ways to improve the measure of the risks associated with all Title IV programs.

Title I Programs. The Department performed a risk assessment of the Title I Program during FY 2004. This assessment documented that the risk of improper payments under the current statutory requirements is minimal. However, one area that the Department is closely monitoring, in conjunction with the U.S. Department of Agriculture (USDA), is the wide use by local educational agencies of the number of children who qualify for free and reduced-price meals to determine an individual school's Title I eligibility and allocation. The Title I statute authorizes a local educational agency to use these data, provided under USDA's National School Lunch Program, for this purpose. In many districts, these data are the only indicator of poverty available at the individual school level.

USDA has raised concerns about the reliability of these data, and it is working with states and localities to improve program integrity, within the existing statutory and regulatory framework, through enhanced monitoring and auditing. USDA is also working with the Department and other federal agencies that have programs that make use of these data to explore longer-term policy options.

Remaining Grant Programs. The Department continues to refine our methods for assessing the potential risk of improper payments in our remaining grant programs. The Department performed a preliminary risk assessment of these programs during FY 2004 using data extracted from our Grant Administration and Payments System (GAPS) and the last two semiannual reports by the Office of Inspector General (periods ending September 30, 2003, and March 31, 2004). This initial assessment indicates that the potential for improper payments in these programs is minimal.

Verification Plan. The Department realizes that the implementation of this initial risk assessment process draws on a limited data set, and we have put in place a vehicle to complete a more detailed risk assessment of these grant programs. We have established a memorandum of understanding with the Department of Energy's Oak Ridge National Laboratory to utilize data-mining techniques on information available from multiple sources including the Federal Audit Clearinghouse's Single Audit Database, the Department's GAPS database, and possibly other sources of grant data. The relevant data from these sources will be run through an algorithm to assign a relative level of risk to the Department's grant programs and recipients. This effort is to be completed by January 2005. Any programs shown to have an unacceptable level of risk will be targeted for additional sampling and verification efforts.

Recovery Auditing Progress. To effectively address the risk of improper administrative payments, the Department executed a formal agreement for recovery auditing work on contract payments. All vendor payment transactions made from FY 1998 through FY 2003 were reviewed. Potential recoveries are minimal. FY 2004 payments will be reviewed during FY 2005. Our purchase and travel card programs remain subject to monthly data-mining to identify potential misuse or abuse.

The Department plans to develop a manager's internal control training program that will focus on controls to eliminate improper payments. This training will focus on the utilization of the risk assessment criteria to properly assess the risk of improper payments in the Department's programs.

The Department will record and maintain corrective action plans as required. We will configure corrective action plans based on the results of the initiatives outlined above. These plans will include due dates, process owners, and task completion dates.

In summary, the Department is accelerating efforts to comply with the Improper Payments Information Act of 2002. We are focused on identifying and managing the risks of improper payments and mitigating risk in this area with adequate control activities. The implementation of our current and anticipated actions ensures that we will maintain an effective program for reducing improper payments throughout the Department.

The Department of Education is committed to management excellence and recognizes the importance of strong financial systems and internal controls to ensure accountability, integrity, and reliability. The Department has made significant progress and continues to work toward achieving a culture of accountability. Management, administrative, and financial system controls have been developed to ensure the following:

- All programs and operations achieve their intended results efficiently and effectively.
- Resources are used in accordance with the Department's mission.
- All programs and resources are protected from waste, fraud, and mismanagement.
- Laws and regulations are followed.
- Reliable, complete, and timely data are maintained and used for decision-making at all levels.

We believe that the rapid implementation of audit recommendations is essential to improving the efficiency and effectiveness of our programs and operations and to achieving our integrity and accountability goals.

Statement on Management and Financial Controls

For the programs, organizations, and functions covered by the Federal Managers' Financial Integrity Act (FMFIA), I am pleased to report that the Department of Education accounting systems and management controls, taken as a whole, provide reasonable assurance that the objectives of FMFIA have been achieved.

—Rod Paige
Secretary of Education

Federal Managers' Financial Integrity Act

During FY 2004, in accordance with the requirements of the Federal Managers' Financial Integrity Act (FMFIA) and using the guidelines of the Department and Office of Management and Budget, we reviewed our management control system. The objectives of our management control system are to provide reasonable assurance that the following occur:

- Our obligations and costs are in compliance with applicable laws.
- Our assets are safeguarded against waste, loss, unauthorized use, or misappropriation.
- The revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial reports and to maintain accountability over assets.
- All programs are efficiently and effectively carried out in accordance with applicable laws and management policy.

The efficiency of the Department's operations is continually evaluated using information obtained from reviews conducted by the Government Accountability Office and the Office of Inspector General (OIG), specifically requested studies, or observations of daily operations. These reviews ensure that our systems and controls comply with the standards established by FMFIA. Managers throughout the Department are responsible for ensuring that effective controls are implemented in their areas of responsibility. Individual assurance statements from assistant secretaries serve as a primary basis for the Department's assurance that management controls are adequate. The assurance statements are based upon each principal office's evaluation of progress made in correcting any previously reported problems; new problems identified by the OIG, the Government Accountability Office, and other management reports; and the management environment within each principal office. Department organizations that have material weaknesses identified are required to submit plans for correcting those weaknesses. The plans, combined with the individual assurance statements, provide the framework for continually monitoring and improving the Department's management controls.

FMFIA Section 2, Management Control. All of the 80 internal control material weaknesses identified since the inception of FMFIA, have been corrected and closed.

Last year, the Department removed information technology (IT) security as an FMFIA material weakness.

FMFIA Section 4, Financial Management Systems. All of the 95 financial management systems nonconformances that have been identified prior to FY 2003 have been corrected and closed. The Department did not declare any new material nonconformances under FMFIA during FY 2003 or during FY 2004.

Federal Financial Management Improvement Act. The Secretary has determined that the Department is in compliance with the Federal Financial Management Improvement Act (FFMIA).

Under FFMIA, the Department has continued to take significant actions on IT security. The 2004 Federal Information Security Management Act (FISMA) Report issued by the OIG on October 6, 2004, indicates that additional efforts are necessary to correct remaining reportable conditions.

The Department has ensured that all major applications and general support systems have developed security system plans, configuration management plans, and contingency/disaster recovery plans in accordance with applicable guidance from the National Institute of Standards and Technology (NIST), and that those plans are consistent across the enterprise. The Department has also taken corrective actions and closed more than 600 weaknesses previously identified and has created a Web-based portal that provides greater access to performance data related to IT corrective actions. We have also completed a Critical Infrastructure Protection Plan interdependence study that assessed the viability of our continuity of operations plans. In addition, several of our principal offices have implemented effective procedures for periodic test and evaluation of the network level security controls that protect the Department's major applications and general support systems.

The Department is currently in the process of revalidating the certification and accreditation (C&A) of our mission-critical systems. This action is being taken because the 2004 FISMA report issued by the OIG states that there was a significant deficiency in the C&A process. While the Department generally concurs with the OIG findings, it does not concur with the OIG conclusion that significant weaknesses in the processes supporting the system certification and accreditations constitute a significant deficiency in the Department's C&A program.

There are marked differences in the evaluation methods used by the Department and the OIG to determine the adequacy of system certification and accreditations. Those differences have resulted in the inability of both parties to reach consensus on C&A report conclusions. Department management also believes that the guidance used by the OIG in conducting the FISMA evaluation may overly emphasize system scan "hits" while underemphasizing the more crucial assessment of context risk and countermeasures. The Department expects to complete the revalidation of mission-critical systems by December 31, 2004, and the remaining systems by March 31, 2005.

EDUCATION'S SCORECARD ON THE *PRESIDENT'S MANAGEMENT AGENDA*

Under the *President's Management Agenda*, the Executive Branch Management Scorecard tracks how well the departments and major agencies are executing the five governmentwide initiatives and other program-specific initiatives. The scorecard employs a simple grading system common today in well-run businesses: green for success, yellow for mixed results, and red for unsatisfactory.

Status. Scores for "status" are based on standards for success published in the President's FY 2003 budget. The standards for success were defined by the President's Management Council and discussed with experts throughout government and academe, including individual fellows from the National Academy of Public Administration. Under each of these standards, an agency is green if it meets all of the standards for success, yellow if it has achieved some but not all of the criteria, and red if it has one or more serious flaws.

Progress. The Office of Management and Budget assesses agency "progress" on a case-by-case basis against the deliverables and time lines established for the five initiatives that are agreed upon with each agency.

The assessments are based on the following criteria: green, implementation proceeding according to plans agreed upon with the agencies; yellow, some slippage or other issues requiring adjustment by the agency in order to achieve the initiative objectives on a timely basis; and red, initiative is in serious jeopardy and unlikely to realize objectives without significant management intervention.

Department of Education Results. During FY 2004, the Department made two significant gains in status scores:

- From red to green in Financial Performance during the first quarter.
- From red to yellow in Budget and Performance Integration during the third quarter.

Although our progress scores in Competitive Sourcing and E-government fell during the year, they returned to green by the end of the fiscal year as a result of our increased attention to these areas.

The scorecard is available at http://www.results.gov/agenda/scorecard.html.

President's Management Agenda
FY 2004 Scorecard

	Target Area		Q1	Q2	Q3	Q4
Governmentwide Initiatives	Human Capital	*Status*	Y	Y	Y	Y
		Progress	G	G	G	G
	Competitive Sourcing	*Status*	Y	Y	Y	Y
		Progress	G	Y	R	G
	Financial Performance	*Status*	G	G	G	G
		Progress	G	G	G	G
	E-government	*Status*	Y	Y	Y	Y
		Progress	G	G	Y	G
	Budget-Performance Integration	*Status*	R	R	Y	Y
		Progress	G	G	G	G
Program Initiatives	Elimination of Fraud and Error in Student Financial Aid Programs	*Status*	Y	Y	Y	Y
		Progress	G	G	G	G
	Faith-Based and Community Initiative	*Status*	Y	Y	Y	Y
		Progress	G	G	G	G

Status: G = green = meets all standards
Y = yellow = meets some standards
R = red = has one or more serious flaws

Progress: G = green = implementation proceeding according to plan
Y = yellow = some slippage in implementing plan or other issues
R = red = unlikely to reach objectives without intervention